

American Telephone and Telegraph Company

Report of the Directors to the Stockholders for the Year 1925



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NEW YORK
1926

Chronology

- 1876 First complete sentence transmitted by telephone.
First conversation by overhead line, 2 miles—Boston to Cambridge.
- 1880 30,872 Bell telephone stations in the United States.
Conversation by overhead line, 45 miles—Boston to Providence.
- 1881 Conversation by underground cable, $\frac{1}{4}$ mile.
- 1884 Conversation by overhead line (hard-drawn copper), 235 miles—Boston to New York.
- 1890 211,503 Bell telephone stations.
- 1892 Conversation by overhead line, 900 miles—New York to Chicago.
- 1900 676,733 Bell telephone stations owned and connected.
- 1902 First conversation by long-distance underground cable, 10 miles—New York to Newark.
- 1906 Conversation by underground cable, 90 miles—New York to Philadelphia.
- 1910 5,882,719 telephone stations in Bell System.
- 1911 Conversation by overhead line, 2,100 miles—New York to Denver.
- 1913 Conversation by overhead line, 2,600 miles—New York to Salt Lake City.
Conversation by underground cable, 455 miles—Boston to Washington.
- 1915 First conversation by transcontinental line, 3,650 miles—Boston to San Francisco.
Speech transmitted for the first time by radio telephone from Arlington, Va., across the continent to San Francisco, over the Pacific to the Hawaiian Islands, and across the Atlantic to Paris.
- 1920 12,601,935 telephone stations in Bell System.
- 1921 Conversation by deep sea cable, 115 miles—Key West, Fla., to Havana, Cuba.
First conversation between Havana, Cuba, and Catalina Island by submarine cable, overhead and underground lines and radio telephone—distance 5,500 miles.
Extension of Boston-Philadelphia cable to Pittsburgh—total distance 621 miles.
President Harding's inaugural address delivered by loud speaker to more than 100,000 people.
Armistice Day exercises at burial of unknown soldier delivered by means of Bell loud speaker and long lines to more than 150,000 people in Arlington, Va., New York and San Francisco.
- 1922 Ship-to-shore conversation by wire and wireless between Bell telephones in homes and offices and the S.S. America 400 miles at sea in the Atlantic.
- 1923 Successful demonstration of transoceanic radio telephony from a Bell telephone station in New York City to a group of scientists and journalists in New Southgate, England.
First broadcasting of a presidential message to Congress, December 6.
- 1924 Pictures sent by telephone circuit from Cleveland to New York and from New York to Chicago.
Nation-wide mobilization of communication by wire and wireless for the United States Army on Defense Test Day.
- 1925 16,720,224 telephone stations in Bell System.

American Telephone and Telegraph Company

MARCH 1, 1926

OFFICERS

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H. B. THAYER

President

W. S. GIFFORD

Vice Presidents

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E. K. HALL

BANCROFT GHERARDI

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Director, Long Lines Department

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JOHN I. WATERBURY

THE BELL TELEPHONE SYSTEM

SHOWING TERRITORIES OF THE ASSOCIATED OPERATING COMPANIES

— KEY —

- Operating Headquarters
- Boundaries of Operating Units
- - - Corporate Boundaries
- State Boundaries

THE PACIFIC TEL. & TEL. CO.

THE MOUNTAIN STATES TEL. & TEL. CO.

NORTHWESTERN BELL TEL. CO.

ILLINOIS BELL TEL. CO.

INDIANA BELL TEL. CO.

MICHIGAN BELL TEL. CO.

THE OHIO BELL TEL. CO.

THE BELL TEL. CO. OF PENNSYLVANIA

NEW YORK TEL. CO.

NEW ENGLAND TEL. & TEL. CO.

SOUTHWESTERN BELL TEL. CO.

CUMBERLAND TEL. & TEL. CO.

SOUTHERN BELL TEL. & TEL. CO.

— KEY —

- Operating Headquarters
- Boundaries of Operating Units
- Corporate Boundaries
- State Boundaries

**Report of the Directors
of
American Telephone and Telegraph Company**

New York, March 3, 1926.

TO THE STOCKHOLDERS:

The past year was one of steady progress in the quality and extent of telephone service. More than 813,000 telephones were added to the Bell System. At the close of the year 16,720,000 telephones were inter-connected in the Bell System, of which over 4,000,000 were owned by independent connecting companies. Practically any one of these telephones anywhere in the United States can be connected at any time of the day or night, week days, Sundays or holidays, with any other one anywhere in the United States. Over 50,000,000 toll and exchange connections, each an individual transaction, are handled daily.

To keep facilities at the highest standard and further to increase its facilities to care for additional business, the Bell System expended, during the past year, \$365,000,000 for new plant. This amount includes expenditures for new plant to replace plant of a cost of \$107,000,000 retired by reason of its having worn out or been destroyed by storms, or because of inadequacy, obsolescence, or changes to meet public requirements. The net additions to the telephone plant of the Bell System were approximately \$258,000,000.

The investment in Bell System plant and other assets devoted to furnishing telephone service at the end of the year amounted to \$2,938,000,000. The number of persons employed, including those in the Western Electric Company, Inc., was over 332,000.

The gross revenue of the Bell System was \$761,200,000. Net earnings were $6\frac{1}{2}$ per cent on the amount invested in plant and other assets. Earnings available for contingencies and surplus amounted to $1\frac{1}{3}$ per cent on the investment—less than a cent a day a telephone, a necessary but relatively small margin of safety.

The Bell System is in a sense publicly owned. Its owners are, for the most part, the stockholders of the American Telephone and Telegraph Company. These numbered over 362,000 at the end of the year. They are widely distributed throughout this country, with a relatively small number in Canada and other parts of the world; and no stockholder owns as much as one per cent of the stock. In addition, there were over 175,000 holders of the common and preferred stocks of its associated telephone companies; so that, after making allowance for duplications, there are now about 500,000 separate owners of the Bell System.

The par value, including installments, of the stock of the Bell System outstanding in the hands of the public at the end of the year was \$1,144,618,690, of which \$949,170,350 was American Telephone and Telegraph Company's stock—the balance being common and preferred stocks of Associated Companies held by the public. The entire debt of the Bell System was \$891,008,995, less than one-third of the total assets. Of the debt only \$502,219,065 is represented by mortgage bonds. The financial structure of the Bell System is, therefore, sound—an important factor in enabling it to obtain funds, needed from time to time for extensions to its plant, on a satisfactory basis.

The financial facts given above for the Bell System combine the figures for the American Telephone and Telegraph Company and its associated telephone companies. These facts of the business are presented as a whole in its relation to the public, with all intercorporate transactions eliminated. In other words, the figures are shown without duplication, as though the Bell System were one company.

From its very nature, our business—the aim of which is to make intercommunication by telephone possible throughout the nation—requires an organization nation-wide in scope, organized and operating under state laws and state regulation, and federal laws and federal regulation. This, of course,

necessitates an enterprise made up of corporations and subsidiary corporations. In short, it requires the sort of organization that is provided by the Bell System. Notwithstanding its many corporations and various intercorporate relations, it is quite simple in principle and it is not arbitrary nor has it merely happened. It is not only the best, but probably the only form of organization that could successfully operate a nation-wide system of intercommunication under American laws and traditions.

Organization Required

The American Telephone and Telegraph Company is the parent company of the Bell System. It owns, directly or indirectly, in most cases all, in some cases the majority, and in two cases the minority, of the voting stock of twenty-five associated telephone companies. These are the operating Bell telephone companies which, with their connections, cover the entire United States. These companies have been organized under state laws and operate under state and federal regulation, and they are responsible for handling the telephone business within their respective territories.

If any one wishes to talk from San Francisco to New York, for instance, it is obviously necessary that he talk through the territory of several of these operating companies. This necessitates his talk being handled by one organization which can coordinate both the plant and the operating. The American Telephone and Telegraph Company therefore, owns directly and constructs, maintains and operates what we term the long-distance lines. These lines interconnect the operating company territories.

In the telephone business the apparatus used is of a highly intricate, technical, and complicated character. Therefore, to make possible satisfactory communication between individuals in the same town or city, or between individuals located in places either near or far apart, it is necessary that the apparatus at both ends and throughout the length of the lines be of certain standards and of the highest quality. In order to insure such standards and quality of apparatus, and also to make sure of apparatus at reasonable prices, the

American Telephone and Telegraph Company owns practically all of the capital stock of the Western Electric Company, Inc., which manufactures telephone apparatus and equipment for the Bell System.

Finally, the American Telephone and Telegraph Company maintains at headquarters, including the forces of the Bell Telephone Laboratories, over 5,000 people whose task it is to invent, to develop and improve telephone service and make it more economical. It is largely because of this fact, namely, that such a large force of people is engaged in scientific research and in the development of better operating methods, better accounting methods and all the other things that go to make up improved and more economical service, that telephone service today in this country costs relatively so little, and is at such a high standard, and that we can confidently look forward to continued progress.

The Bell System is a large modern business enterprise. Notwithstanding its size, however, and notwithstanding the fact that it is steadily growing larger, it is probable that although more complicated it is less hazardous to manage than ever before. It is possible now, to a greater extent than ever, to plan deliberately and to budget operations for years in advance. Judgment and decision can be based more and more on facts.

Telephone Service

The population of the country grows at the rate of from one to two per cent a year. It has been estimated that general business increases somewhat faster than population—approximately three or four per cent a year. The telephone business—due to higher standards of living and the constant trend toward economy of time, not only in business but in all activities—increases at an even more rapid rate than general business.

Because of the nature of the telephone business, its continued growth makes it increasingly difficult even to maintain present standards of service. At the same time, conditions of modern business and domestic life constantly demand ever better and faster service.

Telephone service is not a commodity or physical product comparable to that furnished by other industries, or even other utilities. The business of a telephone company is, in many respects, unique. It furnishes and makes available a service—a service which requires the interconnection of the users. There must be two parties to every telephone conversation. Furthermore, a telephone company can make its service satisfactory only with the co-operation of the users.

The problem of furnishing the service increases with the number of telephones which can be connected, and it is obvious, when one considers the nature of the business, that many factors entering into the cost of furnishing the service would increase greatly if it were not for new economies.

The task, for instance, of interconnecting, or being ready at all times to interconnect, any two of ten telephone subscribers, is relatively simple. The plant needed, however, and the complexity of operation required, to be able to connect any one of ten thousand subscribers with any other one, are relatively very much greater. Thus, in metropolitan centers, due to the large growth, there are increasing complications in furnishing telephone service. To the prospective subscriber it would, perhaps, appear that all that is necessary is to put a telephone instrument in his home or office. What is actually necessary is, not only to install the instrument in his home or office, but to provide also the complicated plant which will make it possible for his telephone to be connected with any one of hundreds of thousands of other telephones, as well as for any one of those hundreds of thousands of telephones to be connected with his telephone.

Each new telephone, therefore, means increased investment in plant, which is only in part represented by either the telephone instrument or the line running to the particular central office to which it is connected. Not only does this tend to a more than proportionate increase in the plant, but it also means increased complexity of operation. Telephone costs have been kept at the present relatively low point, in spite of this unique character of the business, only by constant development and invention of new types of apparatus, and new and better methods of operation.

Service Improvements

During the past year, we have continued to direct our attention toward furnishing telephone service that will, at all times, meet the requirements of the users. Steady improvement has been made in the speed and accuracy of handling telephone calls, and also in the handling of such important factors of service as the installation and moving of telephones, furnishing of directories, keeping lines in good working condition, and the many other factors the satisfactory handling of which is of greatest importance to the telephone user. Particular effort has been made to improve toll and long-distance service. We are meeting with success in increasing the area in which the subscriber may be connected in much the same way as he would be connected with some one located in the same exchange. It is now possible to complete a very large percentage of toll connections while the calling subscriber remains at the telephone.

The speed of service on toll calls has, on the average, been materially increased. The dependability of long-distance service is being further insured by the introduction of long cables in the place of open wires. During the past year the cable between New York and Chicago was completed, and further extensions of toll cable plant are under way. During 1925 one of our transcontinental lines, which extends from Denver to El Paso and thence to Los Angeles, was continued eastward from El Paso to Dallas and thence to New Orleans; thus giving the south-easterly section of the country a more direct route to the Pacific coast, and providing further insurance against storm damage. Work has been started on a third transcontinental line, extending west from Minneapolis to Portland and Seattle. With this line completed, there will be three entirely independent transcontinental routes—one extending through the northerly part of the country, one through the middle of the country, and the third along the southern border.

The installation of machine switchboards continues in those situations where additional switchboard equipment is needed and conditions indicate their use. At the end of 1924, the number of machine switching telephones was 969,000, or

8.7 per cent of the total Bell telephones. At the end of 1925, 1,496,000 telephones were operated on the machine basis, or $12\frac{1}{2}$ per cent of the total. The results of machine switching are satisfactory from the standpoint both of operation and of service to the users.

During the past year, the maintenance and up-keep of the Bell System have continued on a high plane. There have been further improvements in accuracy of adjustment of the apparatus involved in the circuits. The dependability of the service and the distinctness of speech transmission have been maintained and increased. Proper charges have been included in expenses to take care of depreciation accruing during the year.

The business has been operated throughout the year with strict attention to all possible economies. Methods of supervision have been adopted which permit of more accurate measurement of the efficiency and cost of specific operations, and the expenses of the Bell System have been kept at the lowest possible figure consistent with proper maintenance and satisfactory service.

The construction program during 1925 was large, although the net additions to the property were a little less than in 1924 due to the fact that at the beginning of the year the Bell System had not only caught up generally with the demand for service, but had, to a considerable extent, restored the capacity of its plant to more nearly what is considered normal. The amount of new construction in 1926 is expected to exceed somewhat that of 1925.

Development and Research

It is only because of the results of research, reflected in improvement in plant as well as in operating methods, that it is possible, in view of the growth of the business, to furnish telephone service of present standards at any cost. Our continued efforts are directed not only to meeting the demands of further growth, but also to progress in the whole art of telephony. Such progress must, of course, always be made with due regard to every possible economy.

From our research and development have come such noteworthy achievements as transcontinental telephony,

the extension of telephone service to great distances in storm-proof cable, the multitude of intricate mechanisms which have made possible the rapid interconnection of millions of telephones, and the scientific work which has resulted in the beginnings of transoceanic radio telephony.

While these and other noteworthy accomplishments have made possible the tremendous expansion of telephony, they are but a fraction of the total research and development results which your Company is continuously contributing toward a better, a greater, and a more economical telephone service. Each great scientific advance that has been made in the development of telephony has marked out new possibilities for improvement in the service. To render serviceable the results of these scientific advances requires a great many detailed studies that ramify into all parts of the telephone service. In consequence, a very large part of the activities of research and development is devoted to the improvement and simplification of innumerable technical details, all of which must be worked out if the service is to be improved. At the present time there are more than a thousand of these detail research and development problems in process of solution. Since the introduction of improperly developed means and methods would be disastrous in a service so intricate as that of the Bell System, each of these developments requires painstaking care.

The past year has seen active continuation of experiments on transoceanic telephony. This work, which commenced by the first experimental one-way transmission of speech from New York to Paris in 1915, has been continued with successful tests of one-way talks from New York to London. It is now being extended in an effort to solve the extremely difficult problem of two-way conversation. In cooperation with the British Post Office and the Radio Corporation of America, arrangements are nearing completion for comprehensive tests of two-way trans-Atlantic telephony making use of the regular telephone plant of the two countries.

Further work with a view to better adapting the regular telephone plant to extended use in connection with radio broadcasting stations has been carried on. Every other phase of radio transmission which might have application in the

extension of the telephone facilities has also been actively considered.

Marked improvement in the transmission of pictures by wire has been accomplished and this service is now commercially available between New York, Chicago and San Francisco.

Our development and research work, part of which is carried on in the Bell Telephone Laboratories, continues to expand both in magnitude and importance.

Results of Economies

The results of the Bell System's continued efforts for improvement and more economical methods, are apparent in the cost of telephone service to the public. Compared with ten years ago, telephone rates are, on the average, only 33 per cent higher. This is in spite of the fact that wages and material costs have advanced much more than 33 per cent—in fact, wages have advanced much more than the cost of living which is estimated to have increased 75 per cent. This means that if wages and material costs had not changed from pre-war levels, it would have been possible to make an actual reduction in telephone rates of 20 per cent without reducing the present rate of net earnings. The Bell System companies do not need, nor do they seek to earn, more than a reasonable return on their properties—in 1925 the Bell System as a whole earned $6\frac{1}{2}$ per cent on investment in plant and other assets, and substantially less on the real value of its property. It always has been, and still is the policy of the companies comprising the Bell System, after earning a reasonable return, to have all possible reductions in costs benefit the telephone subscriber. Obviously, the change in the value of the dollar; the increasing size of the business, requiring increased plant at present-day prices; the replacement of used-up plant, which was built originally at lower prices, by plant built at present-day prices; higher taxes; and the present wage level, have made rate adjustments upward necessary, but to an extent much less than the increase in prices generally. These rate adjustments have been largely completed.

Relations with the Public

The telephone has increasingly become a necessity. We are responsible for its operation and development on a nation-wide basis. We have always welcomed regulation by public authorities and we recognize that, not only our stockholders, but the public generally, are entitled to know how we are carrying on our stewardship. Criticism may be a most useful aid to management, and we welcome criticism where it is sincere. While occasional criticisms and attacks which would appear to arise solely from insincere and selfish motives add somewhat to the expense and difficulties of management, on the whole our relations with the public and public authorities have been most gratifying.

In the telephone business, the foundation of good public relations is satisfactory service at lowest possible rates. Satisfactory service, of course, includes not only the setting up of telephone connections, but the removal of troubles and their prevention as far as practicable; the prompt installation of new stations and the moving of telephones for subscribers; the prompt, courteous and effective handling of inquiries of all kinds; and the many other factors which comprise the contacts with our customers.

It is our aim at all times to give the best possible telephone service at the lowest possible cost to the user. It is our further purpose to conduct the affairs of the Bell System in accordance with American ideals and traditions, so that it may continue to merit the confidence of the people of the country. There can be nothing inconsistent between our aims and purposes, and the public good. The growing recognition of the fact that the interests of the telephone user and the telephone company are identical is undoubtedly an important factor in our generally satisfactory relations with the public, including regulatory bodies.

Other Matters of Interest

In the Bell System the manufacture of telephone equipment and cables, and the purchase and distribution of supplies are conducted by the Western Electric Company, Inc.

The principal manufacturing plant is at Hawthorne, Illinois, where about 25,000 people are employed. A second-

ary plant at Kearny, New Jersey, is nearly completed. Part of it, devoted to the manufacture of lead-covered cable, has been in successful operation for several months; and the part designed for making telephone apparatus will probably begin operations this year.

The Western Electric Company for many years conducted a foreign business, chiefly through manufacturing subsidiaries, in various countries. During the year all of the interests in foreign companies, except in Canada, were sold at a substantial profit. As a result, the territorial scope of that company now corresponds to that of the Bell System; and the Bell System has no direct or indirect financial interest in any foreign enterprise except in Canada and in the Key West-Havana cable.

The Western Electric Company has also carried on for many years in its own name a domestic merchandising business in electrical supplies of all kinds. At the end of the year this business was turned over to a separate subsidiary corporation organized for the purpose, but entirely owned by the Western Electric Company.

The underlying purpose of these arrangements is that all of the direct activities of the Western Electric Company may be devoted to the large and increasing requirements of the Bell System.

The Bell Telephone Securities Company, which is owned entirely by the American Telephone and Telegraph Company, has had continued success in interesting investors in the stock of the American Telephone and Telegraph Company. Among other results of this wider distribution of stock, is, of course, the widening of the market for Bell System securities generally. People throughout the United States, by their purchase of this stock and through the dissemination of information with reference to all Bell System securities by the Bell Telephone Securities Company, are becoming more and more familiar with, and are investing in, the securities of the Bell System.

The present Employees' Stock Plan has been in effect since May 1, 1921. Under this Plan subscriptions for more than 289,000 shares were received during the year at the price of \$121 a share for the subscriptions received from

January 1, 1925 to May 31, 1925, and thereafter at the price of \$125. More than 160,000 employees at the end of the year were paying for 621,000 shares of stock, by installments of \$3 a share per month. About 57,000 employees are stockholders of record, with total holdings of more than 553,000 shares.

The Plan for Employees' Pensions, Disability Benefits and Death Benefits, was put into effect thirteen years ago. During 1925 the total payments under the Plan amounted to \$5,079,420. Also, as in previous years, financial assistance has been given in many cases of disability which did not come under the provisions of the Plan.

The awards this year under the terms of the Theodore N. Vail Memorial Fund, established for the purpose of recognizing acts which conspicuously illustrate Mr. Vail's high ideals of public service, were one gold medal with \$500 cash, six silver medals with \$250 cash each, and seventy-nine bronze medals, and were in recognition of especially meritorious acts during 1924.

HIGHEST AWARD FOR 1924

TO ANNA LEONELDA LENNAN

Chief Operator, Piedmont, W. Va.
Gold Medal and Five Hundred Dollars

Citation

For conspicuous courage and devotion to the public service.

Chief Operator Anna Leonelda Lennan, early in the morning of March 19, 1924, when a severe flood swept the town of Piedmont, W. Va., disregarding the pleadings of her family and townspeople, crossed a partially submerged bridge which had been closed to traffic and which shortly afterward was carried away, and succeeded in reaching the central office in the center of the flood zone.

Although the building was in great danger of destruction and she was repeatedly warned to abandon her post, she remained in charge of the situation and so organized her force that uninterrupted telephone service, essential because of the flood and the possibility of fire, was afforded to the stricken community.

There is probably no other business where the individual effort of each man or woman counts for more than in the telephone business. The personnel policy of the Bell System aims to bring out and develop the best qualities in each individual, and to establish ways and means by which individual performance can be effectively combined into harmonious, team-playing cooperation. The loyalty and efficiency of the officers and other employees, individually and collectively, have never been greater. Their efforts during the past year merit the appreciation not only of the stockholders, but also of all telephone users.

In 1876, fifty years ago, the first complete sentence was transmitted by telephone. The Bell System, therefore, in 1926 celebrates its fiftieth anniversary year. To the men and women of the Bell System of today and of the past, belongs the honor for the achievements which have made this country lead the world in telephone service. From the results of the past we can look with confidence to still greater achievements in the future.

For the Directors,

W. S. GIFFORD,
President.

Financial statements and statistics are appended in detail, of the American Telephone and Telegraph Company on pages 18 to 23, and of the Bell System as a whole on pages 24 to 33.

AMERICAN TELEPHONE AND TELEGRAPH COMPANY

Balance Sheet, December 31, 1925

ASSETS

Stocks of Associated Companies	\$1,027,448,629.47
Investment in stocks of Associated Telephone Companies.	
Increase during year \$130,949,448.49.	
Bonds and Notes of, and Net Advances to, Associated Companies .	234,460,329.28
Temporary financing of Associated Companies for the extension of their telephone properties. Includes also \$1,788,807.54, investment in bonds of these companies. Increase during year \$22,622,458.34.	
Stocks, Bonds and Notes of, and Advances to, Other Companies .	102,005,012.67
Investments in affiliated and subsidiary companies such as the Western Electric Company, Inc., The Bell Telephone Company of Canada, 195 and 205 Broadway Corporations and Bell Telephone Securities Company. Increase during year \$6,670,090.58.	
Long Lines Plant and Equipment	154,431,111.61
Cost of long-distance plant and equipment for providing interconnection between and through territories of Associated Companies. Increase during year \$13,873,169.75.	
Telephones	41,229,476.47
Cost of telephones furnished to, and maintained for, the Associated Companies. Increase during year \$4,106,884.81.	
Real Estate	2,761.72
Cost of real estate owned, exclusive of that included in Long Lines Plant and Equipment. During 1925 property in New York City used as office headquarters was sold to the 205 Broadway Corporation—a wholly-owned subsidiary—and a building in Indianapolis was sold to the Indiana Bell Telephone Company, resulting in a decrease in this account of \$12,121,703.16.	
Office Furniture and Fixtures	1,040,549.81
Cost of office equipment exclusive of that included in Long Lines Plant and Equipment.	
Accounts Receivable	12,462,581.71
Current receivables, such as dividends, interest, tolls and other items.	
Temporary Cash Investments	45,618,877.71
Funds temporarily invested in municipal, state and U. S. Government short-term obligations in anticipation of financial requirements of Associated Companies for the extension of their properties.	
Cash	26,866,043.46
Cash and deposits in banks available for current requirements.	
Total Assets	<u>\$1,645,565,373.91</u>

AMERICAN TELEPHONE AND TELEGRAPH COMPANY

Balance Sheet, December 31, 1925, Continued

LIABILITIES

Capital Stock	\$ 921,597,500.00
Par value of capital stock outstanding. Increase during year \$33,119,400. See page 23.	
Capital Stock Installments	27,572,850.27
Installments paid by employees on stock subscribed for under the Employees' Stock Plan. See page 23.	
Funded Debt	387,692,600.00
Face value of debt obligations in the form of bonds and debentures. Increase during year \$116,070,600. See page 23.	
Dividend Payable January 15th	20,735,932.50
Dividend declared for the last quarter of 1925.	
Accounts Payable	19,426,764.07
Current bills for supplies and services, and obligations payable on demand.	
Interest and Taxes Accrued, Not Due	11,128,828.34
Interest and taxes applicable to the year 1925, not due and payable until a later date.	
Reserve for Employees' Benefit Fund	7,000,000.00
Provision for accident and sickness disability benefits, pensions and death benefits under the Employees' Benefit Plan.	
Reserves for Depreciation and Contingencies	91,261,334.41
Provision for the ultimate retirement of plant and equipment used up in furnishing telephone service, and provision for contingencies. Increase during year \$9,285,879.49.	
Surplus (Including Capital Stock Premiums)	159,149,564.32
Total accumulated surplus, including \$43,570,410.64 received in excess of par value for capital stock. Increase during year \$11,905,228.87, after charging off debt discount and expense incurred by the issue of the 5 per cent Debentures, 1960.	
Total Liabilities	<u>\$1,645,565,373.91</u>

C. A. HEISS, Comptroller.

AMERICAN TELEPHONE AND TELEGRAPH COMPANY

Statement of Earnings and Expenses for the Year Ending December 31, 1925

EARNINGS

Dividends	\$ 75,395,527.38
Dividends on stocks owned.	
Interest	17,967,081.76
Interest on notes and advances, on bonds owned, and on temporary cash investments and bank deposits.	
Telephone Operating Revenues	86,534,623.51
Revenues under contracts for furnishing instruments and services, and revenues from the operation of the long-distance lines.	
Miscellaneous Revenues	561,680.05
Total	\$180,458,912.70

EXPENSES	51,422,579.05
Salaries and expenses incurred in conducting the business, including expenses of operating the long-distance lines; provision for depreciation; rents, taxes and miscellaneous expense items.	

NET EARNINGS	\$129,036,333.65
Deduct Interest	21,631,287.50
Interest on bonds, debentures and other indebtedness.	

NET INCOME	\$107,405,046.15
Deduct Dividends	81,044,425.93
Dividends at the rate of \$9.00 per share per annum on capital stock.	

Balance	\$ 26,360,620.22
Carried to Reserve for Contingencies	\$ 6,000,000.00
Carried to Surplus	\$ 20,360,620.22

Average number of shares of capital stock outstanding during year	9,111,814
Net earnings per share available for dividends, 1925 (after interest charges)	\$11.79

C. A. HEISS, Comptroller.

LYBRAND, ROSS BROS. & MONTGOMERY
ACCOUNTANTS AND AUDITORS
110 WILLIAM STREET
NEW YORK

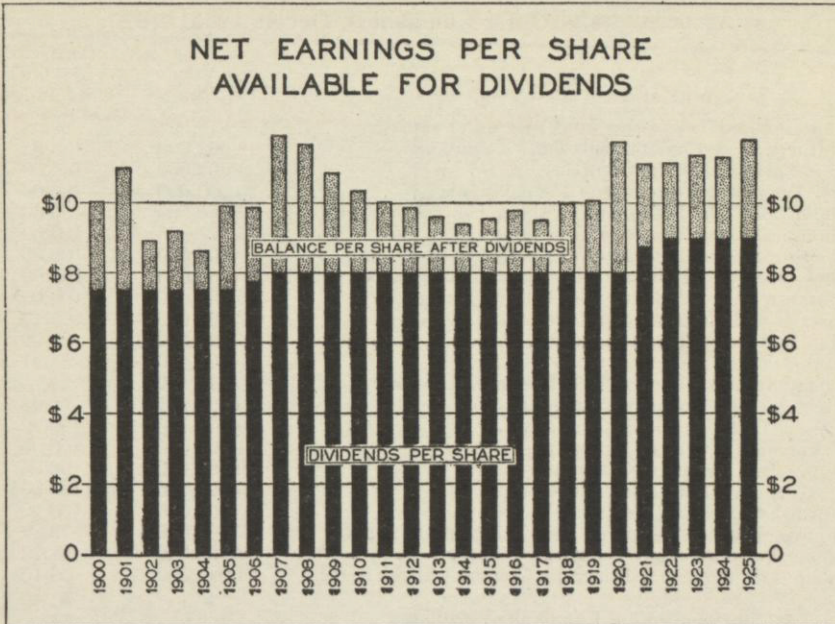
February 5, 1926.

We have audited the accounts of the
AMERICAN TELEPHONE AND TELEGRAPH COMPANY
for the year ended December 31, 1925, and have reviewed reports for that year rendered to the company by the associated and directly controlled companies.

We certify that the balance sheet and income statement as published herewith are in accordance with the books, and, in our opinion, set forth correctly the financial position of the American Telephone and Telegraph Company as at December 31, 1925 and the results of its operations for the year 1925.

LYBRAND, ROSS BROS. & MONTGOMERY.

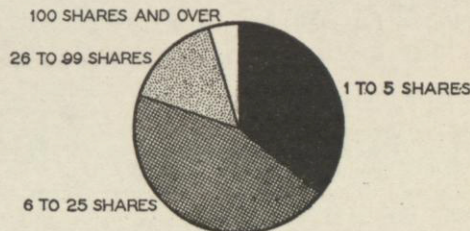
AMERICAN TELEPHONE AND TELEGRAPH COMPANY

**Stockholders**

The number of stockholders of record on December 31, 1925, was 362,179, an increase of 16,713 during the year. The average number of shares held per stockholder is 25. Of the total number of stockholders, about 57,000 are employees of the Bell System owning an average of about 10 shares each.

Of the total number of stockholders, 130,878 held 5 shares or less each; 291,081 held 25 shares or less each; and 345,649 held less than 100 shares each. Of the holders of 100 or more shares each, 16,094 held from 100 to 1,000 shares, and 406 held from 1,000 to 5,000 shares. There were 17 holders of 5,000 shares or more, omitting brokers, holders in investment trusts, etc. At the end of 1925 about 7 per cent of the stock was held by trustees, and about 3 per cent was in the names of brokers.

**DISTRIBUTION OF STOCKHOLDERS
BY SIZE OF HOLDINGS**



AMERICAN TELEPHONE AND TELEGRAPH COMPANY

Holdings of Stocks, Bonds and Notes of, and Net Advances to, Associated and Other Companies, December 31, 1925

Stocks of Associated Companies	Par Value of Holdings	Per Cent of Total Outstanding
New England Telephone and Telegraph Company	\$65,819,000	59.68
Southern New England Telephone Company	8,002,300	33.34
New York Telephone Company	204,692,000	100.00
Bell Telephone Company of Pennsylvania	80,000,000	100.00
Chesapeake and Potomac Telephone Co. (New York)	13,000,000	100.00
Chesapeake and Potomac Telephone Co. of Balt. City	17,174,300	100.00
Chesapeake and Potomac Telephone Co. of Virginia	9,000,000	100.00
Chesapeake and Potomac Telephone Co. of West Virginia	10,500,000	100.00
Southern Bell Telephone and Telegraph Company	45,000,000	100.00
Cumberland Telephone and Telegraph Company	22,898,000	(a) 65.42
Ohio Bell Telephone Company	44,998,800	99.99
Ohio Bell Telephone Company (Preferred)	15,499,400	54.91
Cincinnati and Suburban Bell Telephone Company (b)	5,445,800	29.71
Michigan Bell Telephone Company	49,992,607	99.98
Indiana Bell Telephone Company	26,999,100	99.99
Wisconsin Telephone Company	21,000,000	100.00
Illinois Bell Telephone Company	79,165,000	98.96
Northwestern Bell Telephone Company	65,000,000	100.00
Southwestern Bell Telephone Company	75,000,000	100.00
Mountain States Telephone and Telegraph Company	27,990,000	72.82
Pacific Telephone and Telegraph Company	38,163,300	88.75
Pacific Telephone and Telegraph Company (Preferred)	64,042,700	78.10
Stocks of Other Companies (Affiliated)		
Bell Telephone Laboratories, Inc.	50,000	(c) 50.00
Bell Telephone Securities Company	1,000,000	100.00
Bell Telephone Company of Canada	15,624,800	32.09
Central Union Telephone Company	2,999,800	99.99
Cuban American Telephone and Telegraph Company	540,000	50.00
Cuban American Telephone and Telegraph Co. (Preferred)	540,000	50.00
Western Electric Company, Inc. (no par value)	(d) 737,521	98.34
195 Broadway Corporation	2,100,000	70.00
205 Broadway Corporation	1,300,000	100.00
Bonds		Face Value of Holdings
Associated Companies		\$1,789,500.00
Other Companies:		
Kansas City Telephone Co. 5%, 1938		5,000,000.00
Demand Notes and Net Advances		
Associated Companies		\$232,671,521.74
Other Companies:		
Bell Telephone Laboratories, Inc.		1,300,000.00
Bell Telephone Securities Company		3,200,000.00
Central Union Telephone Company		399,700.00
205 Broadway Corporation		12,047,602.92

(a) Does not include 34.57 per cent owned by Southern Bell Telephone and Telegraph Company, an Associated Company.

(b) Par \$50.

(c) Remaining 50 per cent owned by Western Electric Company, Inc.

(d) Number of shares.

AMERICAN TELEPHONE AND TELEGRAPH COMPANY

Changes in Capital Stock Outstanding During 1925

	Par Value
Capital Stock outstanding December 31, 1924	\$888,478,100.00
Issued for cash at par in accordance with the terms of the offer of May 20, 1924, to stockholders of record June 10, 1924	20,921,100.00
Issued to employees of the Bell System upon completion of installment payments under Employees' Stock Plan at a premium of \$683,666 over par value	6,166,400.00
Issued in exchange for convertible bonds at a premium of \$589,232 over par value	6,031,900.00
Capital Stock outstanding December 31, 1925	\$921,597,500.00
Increase during year	\$ 33,119,400.00

Changes in Capital Stock Installments During 1925

Capital Stock Installments December 31, 1924:	
From stockholders under terms of offer dated May 20, 1924 . . .	\$ 12,523,371.48
From employees under Employees' Stock Plan	16,342,900.22
Total	\$ 28,866,271.70
Capital Stock Installments December 31, 1925:	
From employees under Employees' Stock Plan	\$ 27,572,850.27
Increase during year	\$ 1,293,421.43*

Changes in Funded Debt Outstanding During 1925

	Face Value December 31, 1925	Increase*
4% Collateral Trust Bonds, 1929	\$ 78,000,000.00	\$
5% Collateral Trust Bonds, 1946	72,431,900.00	773,100.00
5% Western Telephone and Telegraph Co. Bonds, 1932	9,969,000.00	
5½% Debenture Bonds, 1943	98,443,700.00	579,900.00
5% Debentures, 1960	124,359,600.00	124,359,600.00
4% Convertible Bonds, 1936†	2,589,000.00	
4½% Convertible Bonds, 1933†	1,899,400.00	1,644,000.00
6% Convertible Bonds, 1925		5,292,000.00
Total Funded Debt	\$387,692,600.00	\$116,070,600.00

Analysis of Changes in Funded Debt

ISSUED:	
5% Debentures, 1960	\$125,000,000.00
RETIRED:	
Through operation of Sinking Funds:	
5% Collateral Trust Bonds, 1946	\$ 773,100.00
5½% Debenture Bonds, 1943	579,900.00
5% Debentures, 1960	640,400.00
	\$ 1,993,400.00
By conversion into Capital Stock:	
4½% Convertible Bonds, 1933	\$ 1,644,000.00
6% Convertible Bonds, 1925	4,408,200.00
	\$ 6,052,200.00
At maturity:	
6% Convertible Bonds, 1925	\$ 883,800.00
Total Retired	\$ 8,929,400.00
INCREASE DURING YEAR	\$116,070,600.00

*Decrease shown in italics.

†Conversion privilege expired.

BELL SYSTEM FINANCIAL STATEMENTS

The Bell System Balance Sheet and Income Statement which follow consolidate the accounts of the American Telephone and Telegraph Company and its twenty-five associated operating telephone companies, all inter-company duplications being excluded from the combined figures. The accounts of the Western Electric Company, Incorporated, The Bell Telephone Company of Canada and of subsidiary and connecting companies in which either the American Telephone and Telegraph Company or its associated telephone companies have investments are not consolidated. The investments in these companies are included in the accompanying Balance Sheet under the item Investments, and dividends and interest received from them are included in the Income Statement under Non-Operating Revenues.

Bell System Balance Sheet, December 31, 1925 (Inter-Company Duplications Excluded)

ASSETS	
Telephone Plant	\$2,524,905,590
Plant and equipment used in furnishing telephone service; comprised of land and buildings, rights of way, poles, wire, cable, underground conduit, switchboards, telephones, etc. Increase during year \$257,982,124.	
General Equipment, Tools and Supplies	69,334,607
Materials and supplies, office furniture and fixtures, automobiles, tools, etc. Increase during year \$5,886,154.	
Investments	163,728,250
Investments in stocks and bonds of, and advances to, subsidiary and connecting companies and in miscellaneous property. These investments include stocks of the Western Electric Company, Inc., The Bell Telephone Company of Canada, etc. Increase during year \$8,018,088.	
Receivables	84,220,909
Current accounts receivable from telephone subscribers, and amounts receivable from connecting companies and others.	
Temporary Cash Investments	47,277,423
Funds, mainly those of the American Telephone and Telegraph Co., temporarily invested and held available for conversion into cash as needed by Associated Companies for extensions to their properties.	
Cash	48,537,040
Funds on hand and in banks to meet current needs.	
Total Assets	<u>\$2,938,003,819</u>

NOTE: All items of intangible assets carried in the accounts of Bell System companies are excluded from the Bell System Balance Sheet through a corresponding reduction in the Surplus and Reserves.

BELL SYSTEM FINANCIAL STATEMENTS

Bell System Balance Sheet, December 31, 1925, Continued (Inter-Company Duplications Excluded)

LIABILITIES

Capital Stock (Including Installments)	\$1,144,618,690
Par value of capital stock outstanding in hands of public, including installment payments of \$27,756,200 on stock not yet issued.	
Increase during year \$51,045,828.	
Common	
American Telephone & Telegraph Co.	\$921,597,500
Associated Companies	89,462,843
Preferred	
Associated Companies	105,802,147
Installments	
American Telephone & Telegraph Co.	27,572,850
Associated Companies	183,350
Funded Debt	890,336,995
Face value of funded indebtedness outstanding in hands of public. Increase during year \$137,604,398.	
Mortgage Bonds	
Associated Companies	\$502,219,065
Collateral Trust Bonds	
American Telephone & Telegraph Co.	160,332,900
Associated Companies	414,330
Debenture Bonds and Notes	
American Telephone & Telegraph Co.	227,224,700*
Associated Companies	146,000
Bills Payable	672,000
Short-term obligations payable within one year from date of issue.	
Accounts Payable	48,310,063
Current bills for supplies, services, etc.	
Accrued Liabilities Not Due	75,374,497
Taxes, interest, rents, etc., applicable to the year 1925, not due and payable until a later date.	
Employees' Benefit Funds	30,441,438
Provision for accident and sickness disability benefits, pensions and death benefits under the Employees' Benefit Plan. Increase during year \$6,128,348.	
Surplus and Reserves	748,250,136
Reserves for depreciation and contingencies, and accumulated surplus of the American Telephone and Telegraph Company and its 25 associated companies invested in the telephone business. Increase during year \$69,412,544.	
Total Liabilities	<u>\$2,938,003,819</u>

* Includes \$4,488,400 "Convertible Bonds" in respect of which the conversion privilege has expired.

BELL SYSTEM FINANCIAL STATEMENTS

Bell System Income Statement For Year Ending December 31, 1925 (Inter-Company Duplications Excluded)

Exchange Revenues	\$506,026,224
Revenues from local exchange service.	
Toll Revenues	219,913,020
Revenues from long-distance and local toll service.	
Miscellaneous Revenues	15,360,465
Revenues derived from directory advertising and miscellaneous sources.	
Total Operating Revenues	\$741,299,709
Current Maintenance	\$111,442,827
Cost of inspection, repairs and rearrangements required to keep the telephone plant and equipment in good operating condition, representing 4.8 per cent of the cost of the average plant in service during the year.	
Depreciation	115,471,470
Expense resulting from the loss of investment when telephone property is retired from service, based on rates of depreciation for the different classes of property which spread the loss from property consumed in telephone operations uniformly over its service life. Provision during 1925 for this loss represented 5 per cent of the cost of the average plant in service.	
Traffic Expenses	185,928,193
Expenses incurred in the handling of telephone calls of which about 85 per cent represents operators' wages.	
Commercial Expenses	64,130,638
Expenses incurred in business relations with subscribers, keeping subscribers' accounts, rendering bills for service, making collections, directories, advertising, pay station commissions, etc.	
General and Miscellaneous Expenses	30,602,197
Expenses of the Executive, Accounting, Financial and Legal Departments, insurance premiums, sickness, accident and death benefits, pensions and other items of general expense incurred in operating the properties.	
Total Operating Expenses	\$507,575,325
Net Operating Revenues	\$233,724,384
Uncollectible Revenues	\$ 4,651,579
Revenues earned which, based on experience, cannot be collected.	
Taxes	58,186,816
Federal, state and local taxes applicable to the year's operations.	
Operating Income (Carried forward)	\$170,885,989

BELL SYSTEM FINANCIAL STATEMENTS

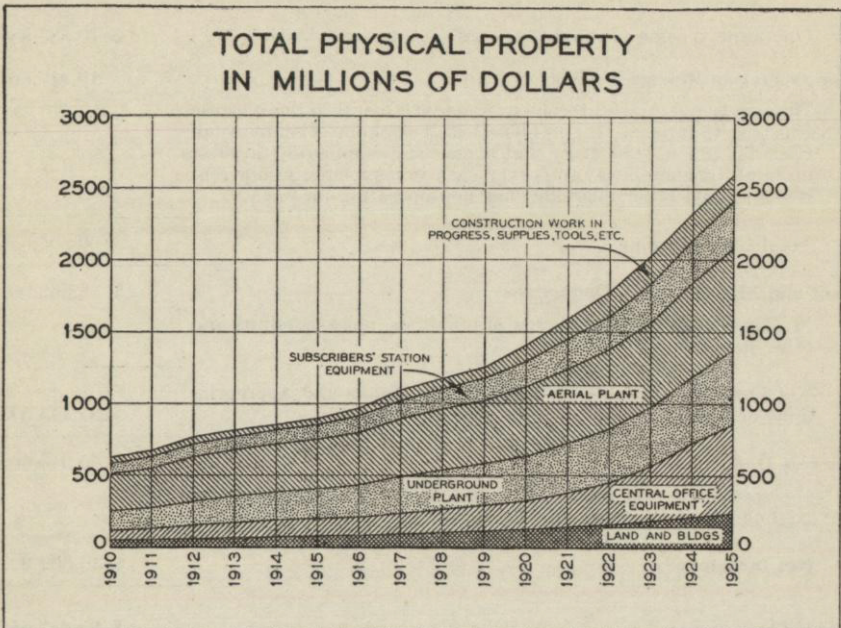
Bell System Income Statement, Continued

Operating Income (Brought forward)	\$170,885,989
Non-Operating Revenues—Net	19,919,667
Dividends and interest received from investments in the Western Electric Company, Inc., The Bell Telephone Company of Canada, and in subsidiary and connecting companies; interest on bank balances and temporary cash investments, minor rent revenues and other miscellaneous non-operating income.	
Total Gross Income	<u>\$190,805,656</u>
Rent and Miscellaneous Deductions	\$ 8,362,061
Mainly rentals paid for the use of buildings, poles, conduits and other facilities.	
Net Earnings available for Interest, Dividends and Appropriations of Income	<u>\$182,443,595</u>
Interest Deductions	\$ 45,940,664
Interest charges on funded debt and other debt obligations, including amortization of debt discount.	
Net Income	<u>\$136,502,931</u>
Dividends	\$ 93,242,657
To holders of common stock of	
American Telephone and Telegraph Co.	\$81,044,426
Associated Companies	5,236,657
To holders of preferred stock of	
Associated Companies	6,961,574
Miscellaneous Appropriations of Income	\$ 5,345,580
Amounts appropriated to Employees' Benefit Reserves for sickness and accident disability and for pensions to employees and death benefits to their dependents.	
Balance	<u><u>\$ 37,914,694</u></u>

Average Monthly Revenues and Expenses Per Telephone in Bell System for Year Ending December 31, 1925

Total Revenues from all sources	\$5.49
Total Expenses including Taxes	4.17
Net Earnings available for Interest, Dividends, Appropriations of Income, Contingencies and Surplus	\$1.32
Interest	\$0.33
Dividends	.67
Appropriations of Income	.04
Balance for Contingencies and Surplus	<u>\$0.28</u>

BELL SYSTEM STATISTICS



The chart above shows the steady and consistent growth in all classes of telephone property to meet the expanding demands for service. The figures below show by years the net plant additions, and the total investment in plant per telephone at the end of each year, since 1910, the latter reflecting the effect on investment per telephone since 1916 of the higher levels of wages and general commodity prices.

Net Plant Additions During Year		Total Plant Per Telephone December 31st	
1910	\$ 53,582,800	1910	\$157.16
1911	55,660,700	1911	154.81
1912	75,626,900	1912	156.72
1913	54,871,900	1913	153.10
1914	50,045,300	1914	153.04
1915	32,863,700	1915	148.67
1916	66,224,700	1916	145.70
1917	118,599,500	1917	152.60
1918	77,922,600	1918	159.82
1919	73,446,000	1919	158.18
1920	147,882,100	1920	164.76
1921	180,039,200	1921	174.32
1922	185,354,000	1922	182.77
1923	249,728,000	1923	191.16
1924	287,976,000	1924	202.68
1925	257,982,100	1925	210.86

BELL SYSTEM STATISTICS

Changes During 1925 in Capital Stock (Including Installments) and Funded Debt Outstanding in Hands of Public

	Amount December 31, 1925	Increase during year
Common Stock, American Telephone and Telegraph Co.	\$949,170,350	\$31,825,978
Common Stock, Associated Companies	89,646,193	17,450,650
Preferred Stock, Associated Companies	105,802,147	1,769,200
Funded Debt, American Telephone and Telegraph Co. .	387,557,600	116,000,600
Funded Debt, Associated Companies	502,779,395	21,603,798

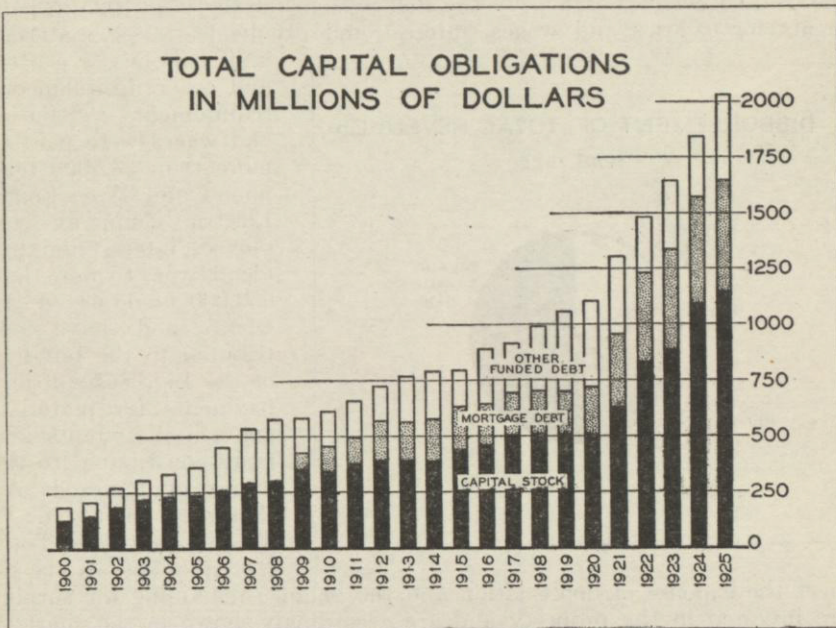
Principal Items of Bell System Financing During 1925

American Telephone and Telegraph Company: Sale of \$125,000,000 Thirty-five Year Sinking Fund 5% Gold Debentures dated January 1, 1925, and retirement of \$6,936,000 Convertible Bonds.

The Bell Telephone Company of Pennsylvania: Sale of \$50,000,000 First and Refunding Mortgage 5% Gold Bonds, Series C, dated October 1, 1925 and maturing October 1, 1960.

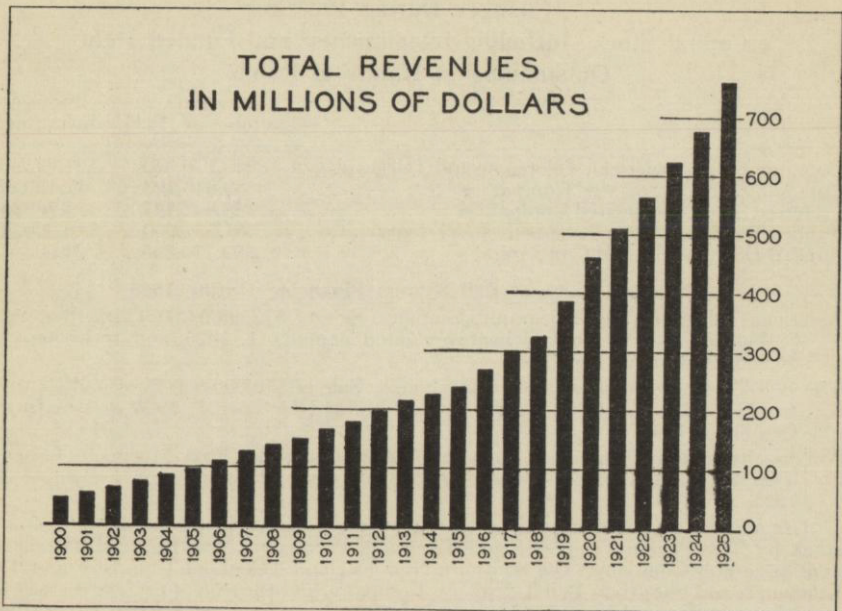
Northwestern Bell Telephone Company: Redemption of its First Mortgage Twenty-Year 7% Gold Bonds, of which \$27,623,300 were outstanding on December 31, 1924.

Other items of financing during the year included sales to the public of common stock by The Pacific Telephone and Telegraph Company, New England Telephone and Telegraph Company, The Southern New England Telephone Company and The Cincinnati and Suburban Bell Telephone Company, and the sale of preferred stock by the Diamond State Telephone Company, of a total par value of \$19,016,250. Minor debt issues were assumed in connection with property purchased, and through the operation of sinking funds bonds aggregating \$5,250,000 were retired during the year.

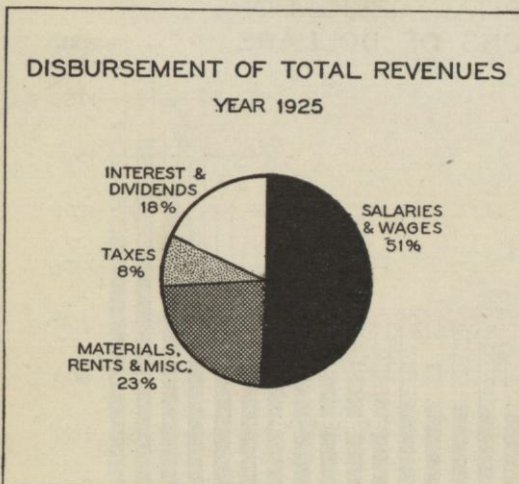


At the end of 1925, capital stock represented 56.2 per cent, mortgage debt 24.7 per cent, and other funded debt 19.1 per cent of total capital obligations.

BELL SYSTEM STATISTICS



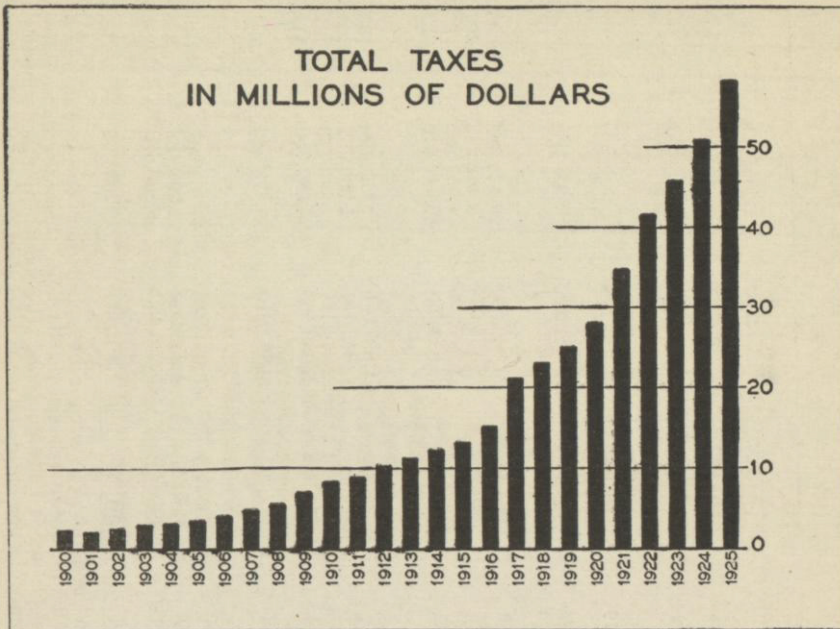
The chart herewith shows the direct disbursement to the public of the Total Revenues earned by the Bell System for the year 1925 in payments for salaries and wages, interest and dividends, taxes, materials



and supplies, rents and other miscellaneous requirements. Salaries and wages were paid to more than 332,000 telephone and Western Electric Company employees, interest and dividends went to more than 650,000 individuals whose funds have contributed to the building of the Bell System, and payments for materials and supplies, rents and taxes contributed to the wages of hundreds of thousands of others. That portion of the Total Revenues set aside to

meet the expense of depreciation and the balance remaining for surplus are invested in the property and are accordingly shown in the chart as spent for the purposes to which they are applied. Telephone revenues are expended very largely in the same communities which contribute them.

BELL SYSTEM STATISTICS



Taxes per telephone in 1925 amounted to \$5.04 as compared with \$2.27 per telephone in 1910; an increase of over 120 per cent.

Employees' Benefit Plan**Payments Under Employees' Benefit Plan During Year 1925**

Pensions	\$ 491,705
At the end of the year there were 908 employees on the pension rolls. The average pension was approximately \$48 per month.	
Sickness Disability Payments	3,275,127
The number of cases of sickness disability under the Plan in 1925 was 34,478.	
Accident Disability Payments	876,209
The number of accidents per 1,000 employees involving disability of one day or more was further decreased by 14% during 1925.	
Sickness Death Payments	436,379
Payments were made in the case of 404 employees.	
Total Payments	\$5,079,420

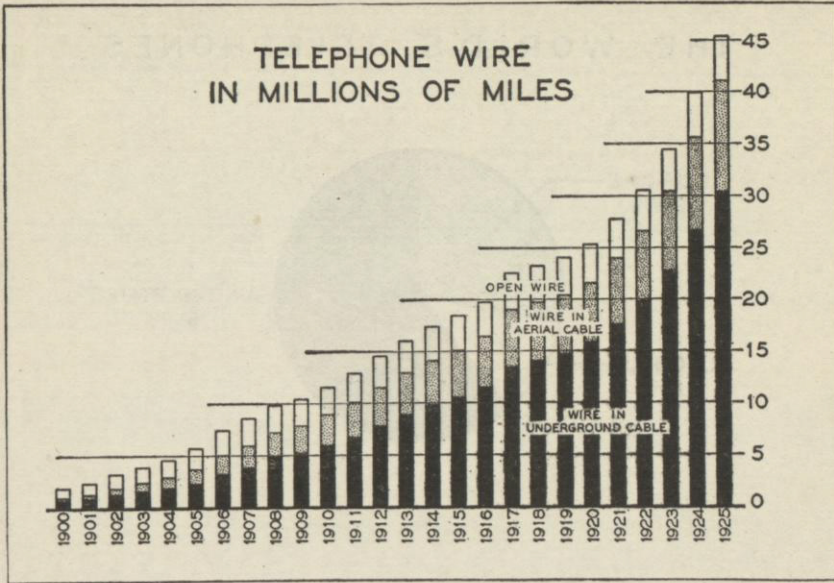
BELL SYSTEM STATISTICS

	Dec. 31, 1910	Dec. 31, 1915	Dec. 31, 1920	Dec. 31, 1924	Dec. 31, 1925	Increase during 1925*
Number of Telephones:						
Bell Companies.....	3,933,056	5,968,110	8,333,979	11,242,318	12,035,224	792,906
Bell Connecting Companies and Lines.....	1,949,663	3,204,385	4,267,956	4,664,232	4,685,000	20,768
Total Telephones.....	5,882,719	9,172,495	12,601,935	15,906,550	16,720,224	813,674
Number of Central Offices.	4,933	5,300	5,702	5,978	6,017	39
Number of Connecting Companies.	7,396	8,735	9,231	9,252	9,227	25
Number of Connecting Rural Lines.	10,449	19,579	26,032	28,059	28,861	802
Miles of Pole Lines.	282,877	330,602	358,091	382,192	386,064	3,872
Miles of Exchange Wire:						
Wire in Underground Cable.....	5,630,851	9,947,359	14,384,135	24,760,252	28,425,392	3,665,140
Wire in Aerial Cable.....	2,800,000	4,503,124	5,586,531	8,135,034	9,462,213	1,327,179
Open Wire.....	1,247,367	1,601,579	1,633,802	1,917,735	1,953,235	35,500
Total Exchange Wire.....	9,678,218	16,052,062	21,604,468	34,813,021	39,840,840	5,027,819
Miles of Toll Wire:						
Wire in Underground Cable.....	386,088	625,792	1,363,398	1,893,660	2,057,196	163,536
Wire in Aerial Cable.....	70,000	98,804	299,385	842,751	1,209,332	366,581
Open Wire.....	1,507,906	1,728,887	2,110,153	2,344,187	2,366,172	21,985
Total Toll Wire.....	1,963,994	2,453,483	3,772,936	5,080,598	5,632,700	552,102
Total Miles of Wire.	11,642,212	18,505,545	25,377,404	39,893,619	45,473,540	5,579,921
Average Daily Telephone Conversations:†						
Exchange Conversations.....	21,681,471	25,183,799	31,835,353	43,981,243	46,702,307	2,721,064
Toll Conversations.....	602,539	819,030	1,327,247	1,835,209	2,098,163	262,954
Total Conversations.....	22,284,010	26,002,829	33,162,600	45,816,452	48,800,470	2,984,018
Number of Employees.	120,311	156,294	231,316	279,659	293,095	13,436

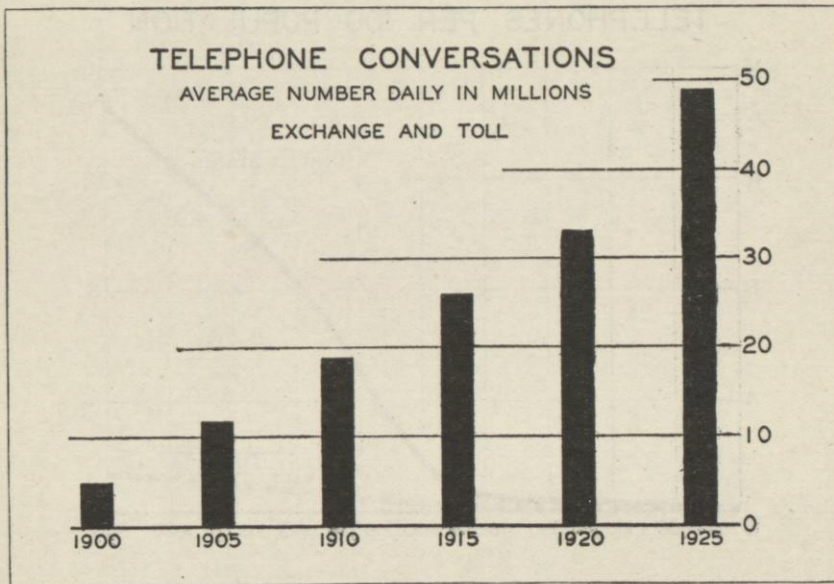
There are throughout the United States 9,227 telephone companies and in addition 28,861 rural telephone lines operated mainly on a co-operative basis, which have arrangements with the associated Bell companies for the interchange of toll traffic. These are shown in the above table as Connecting Companies and Connecting Rural Lines, and their telephones as Bell-Connecting telephones. All other statistics are for the American Telephone and Telegraph Company and its 25 associated companies combined and do not include data for connecting companies or rural lines.

* Decrease shown in italics. † For year ending December 31.

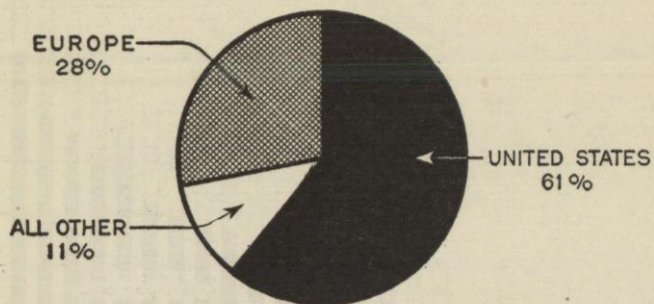
BELL SYSTEM STATISTICS



In 1910, of the total miles of wire, 76 per cent was in aerial and underground cable, and 24 per cent was open wire. At the end of 1925, about 90 per cent was in aerial and underground cable and 10 per cent in open wire.



THE WORLD'S TELEPHONES



TELEPHONES PER 100 POPULATION

